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PP RUEHWEB

DE RUEHLO #1535/01 1551621
ZNY SSSSS ZZH
P 031621Z JUN 08
FM AMEMBASSY LONDON
TO RUEHC/SECSTATE WASHDC PRIORITY 8822
INFO RUEHDM/AMEMBASSY DAMASCUS PRIORITY 0306
RUEHUNV/USMISSION UNVIE VIENNA PRIORITY 0326
RUEHNO/USMISSION USNATO PRIORITY 1220
RUCNDT/USMISSION USUN NEW YORK PRIORITY 1198

S E C R E T LONDON 001535

NOFORN
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E.O. 12958: DECL: 05/21/2018
TAGS: [PARM](#) [MARR](#) [PREL](#) [IR](#) [SY](#) [UK](#)
SUBJECT: INTERNATIONAL SECURITY DISCUSSIONS WITH HMG

Classified By: Political Minister Counselor Maura Connelly, reason 1.4,
b/d.

11. (C/NF) Summary. FCO and Treasury officials said that HMG was taking steps to restrict Iranian banking activity in the UK but is restricted by the legal tools available to it. FCO PolDir Mark Lyall Grant, FCO Director General for Defense and Intelligence Mariot Leslie, and HMT International and Finance Director Stephen Pickford told Acting Under Secretary Rood and ISN PDAS Patricia McNerney May 15-16 that HMG had been bloodied by judicial losses in trying to shut down Iranian banking activity and had resorted to using an intel-based approach to restrict Iranian activity. Pickford and Leslie acknowledged that HMG had not made a strategic decision to shut down Iranian banking in the UK, but rather was taking steps to restrict this activity. Similarly the decision to delay EU consideration of further measures against Iran was a tactical decision designed to gain international support by giving the new P5 1 incentives package a chance to resolve the nuclear standoff diplomatically. Rood and McNerney also pressed HMG for support on cluster munitions, the Arms Trade Treaty and the Syrian nuclear program. End Summary.

Iran and Proliferation Financing

12. (C/NF) Rood raised Iranian proliferation financing in separate meetings with Political Director Mark Lyall Grant, FCO Director General for Defense and Intelligence Mariot Leslie, and HM Treasury International and Finance Director Stephen Pickford, urging HMG to make a political decision to crack down on Iranian banks. He noted, and his interlocutors agreed, that the constraints on financing seemed to be the most effective lever against the Iranians and should be pursued with vigor. Due to London's position as a banking center and a substantial hub for Iranian banking, action by the UK would resonate particularly widely and would prevent other EU members and states in other regions from hiding behind the UK. Rood suggested if HMG asked for enough due diligence, it could effectively shut down the Iranian banks and could attribute the process to the UNSCRs. He noted that the specific sums of funds affected by actions may be small, but the market effect would be substantial. More important than the sums affected, shutting down the banks would send major ripples through the international financial system.

13. (C/NF) Pickford welcomed Rood's suggestion to publicize UK actions more. Pickford and his colleagues, Patrick Guthrie, Head of the Asset Freezing Unit, and Tom Neylan, Counter Terrorist Finance Advisor, reviewed the UK legal impediments to more aggressive action against the Iranian banks. They stressed the difference between subsidiary banks, found in the UK, and branch banks, used by the Iranians elsewhere. The subsidiary arrangement, established at the UK's insistence, had advantages and disadvantages. On the plus side, the UK subsidiaries are independent of Iran; they have

their own UK board and are subject to UK financial oversight. Their capital and assets remain in the UK. The downside is trying to prove a connection to the sanctioned activities of the parent bank. If the UK allowed them to operate as a branch, the ties to a sanctioned entity would be clearer, but they would also be more able to extract money from the UK and get it to Iran. Given that Bank Sepah has no new bank activity in the UK, HMG judges it better to hold with the current subsidiary regime, despite the legal constraints it presents.

¶4. (C/NF) Pickford said HMG lawyers were hopeful that at least part of the recent ruling against HM Treasury's enforcement of Iran sanctions would be overturned on appeal. They were also pursuing new legal authority, but the vehicle -- the latest counterterrorism bill -- was stalled in Parliament over an unrelated fight about the length of detention without charge of terror suspects. Pickford also described a planned meeting of UK, U.S. and French legal officials to explore how far UNSCR 1803 could be applied under national legislation. They hoped to include Germany in the effort soon. Pickford noted that the EU was making progress in issuing a directive to implement 1803, which will help countries like Germany to be more active.

¶5. (C/NF) Leslie noted that UK analysis supported the assertion that the financial levers were working. She resented other countries hiding behind the UK, because "nobody has been stronger on this than us." Leslie noted the legal issues are "real" and could not be brushed aside. Already the UK has lost several legal cases in the terrorism context because HMG was not able to use intelligence as evidence. Leslie said that there is a sense in HMG that the UK courts are looking to "trip us (HMG) up and catch us" stepping over legal bounds. Therefore, HMG has taken an intel-based approach to disrupt activities rather than risk judicial loss and bad publicity. Leslie assured Rood that HMG is "on the case."

¶6. (C/NF) FCO Poldir Mark Lyall Grant noted that the P5 1 had just that day agreed to the package and cover letter for the new Iranian incentive package and were awaiting Iranian assent to deliver it. He noted the current policy "is not working but hasn't yet failed either." The West needed bigger sticks and bigger carrots. Lyall Grant believed engagement on non-nuclear issues could stimulate debate in Iran that would turn people against the regime. He viewed China as the biggest obstacle to implementing the strategy, as Beijing does not see Iran as a threat. Lyall Grant insisted there was "no shortage of political will" in HMG to shut down Iranian banks, but different legal requirements restricted HMG maneuvering. He argued that HM Treasury "had no illusions about HMG policy" which is aimed at doing everything possible to contain Iranian financing.

EU and IAEA Action Against Iran

¶7. (C/NF) On the EU track, Lyall Grant described a three-step process: listings, "gold plating UNSCR 1803," and "wider measures" that include the sanctions on energy and investment, and withdrawing defence attaches. Lyall Grant noted that the UK strategy was to get the first two steps agreed to before attempting the much more controversial wider measures, which he expected to be a "hell of a slog unless the Iranians do something really stupid." He said the listings had been agreed, including the designation of Bank Melli, but the EU had not "pulled the trigger" in anticipation of delivering the new incentives package. The EU would be prepared to pull the trigger as soon as the Iranians rejected the incentives package. HMG was also fairly confident it could get EU agreement on gold plating UNSCR 1803 since Italy has become more flexible. Discussions at 27 would begin the following week.

¶8. (C/NF) Leslie argued that the EU decision to delay consideration of financial measures against Iran until June was purely tactical. HMG believed taking aggressive action

against Iran before the new P5 1 incentives package was delivered would appear disingenuous to the rest of the world and complicate efforts to gain support. Noting that France would be hosting in July an EU meeting on the meaning of financial vigilance, the UK planned to take a clear public line.

¶9. (C/NF) Similarly, Leslie expressed concern that a weak vote on an IAEA Board of Governors resolution could be a serious setback at a time when the West is enjoying increased momentum. Rood noted that even without unanimity, a BOG resolution would reassert some of the BOG's authority, which has been chipped away as El-Baradei and the Secretariat have been allowed to determine the pace and substance of engagement with Iran. Leslie was open to a BOG resolution if the groundwork were laid to ensure its passage. Lyall Grant said HMG would be unwilling to proceed on a resolution if the Russians were not on board, as any indication of an E3 3 split would be very detrimental to the cause. If the Russians agreed to a resolution, HMG would be happy to support a resolution making it clear the Iranian dossier is not closed.

Cluster Munitions

¶10. (C/NF) Rood underscored the importance of NATO interoperability not being affected by the following week's Dublin Meeting of the Oslo Process on Cluster Munitions (CMs). He noted 95 percent of civilian casualties in post-conflict regions are from other types of unexploded ordnance. Leslie noted that the Norwegian official in charge of the CM initiative was from the human rights department, vice the political-military side. She had been clear to the Norwegians that NATO interoperability was a redline for HMG. In addition, the UK still uses two types of CMs, which are essential to its arsenal. She said the UK would not agree to a ban that affected these munitions. (Embassy note: The UK did, however, sign the treaty May 30 that did in effect ban those munitions. End note) Leslie noted the Norwegians had shown some flexibility in their rhetoric, but she was certain their fundamental objective remained to ban CMs. Leslie explained that HMG was experiencing much of the same public and political pressure to ban CMs that the Norwegians felt. She noted FS Miliband had been targeted personally with posters saying "Cluster Munitions should be Milibanned!" HMG, therefore, needed to be seen cooperating with the process and "could not just walk away."

Arms Trade Treaty

¶11. (C/NF) Rood noted that UK Permrep John Duncan had raised the possibility of a non-consensual report at the Group of Government Experts, a move toward which the USG would not look favorably. Leslie said a non-consensual report was not part of the HMG gameplan and suggested Duncan may have experienced a slip of the tongue. She said she would look into it.

Syria

¶12. (S/NF) Leslie said HMG needed to know the USG plan regarding allegations about Syria's nuclear program. Rood said the USG had encouraged the IAEA to take action, but Director General El-Baradei seemed less interested than we had hoped and more annoyed by Israel's bombing of the site than by any Syrian safeguards violation. El-Baradei said the IAEA would provide a report to the Board of Governors (BOG) in June, and Rood hoped to keep it under discussion at the BOG so the issue would not be swept under the rug. He requested HMG assistance in keeping the focus of discussions on Syria rather than Israel. Rood said El-Baradei's Deputy Director General for Safeguards Heinonen was more interested than his boss and seemed confident the Syrians would give him access to the site soon.

¶13. (S/NF) Leslie noted the UK had done its own assessment after the Israeli intervention and concluded it was probably a nuclear reactor built with DPRK assistance. But, following the Israeli and U.S. lead, HMG did not report its findings to the IAEA at the time and was therefore in an awkward position in pressing the issue now.

¶14. (U) This cable has been cleared by AU/S Rood and ISN PDAS McNerney.

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LeBaron